Dear xxxx;

"Periodic pullbacks are the admission price to the market." This is a quote that is brought up whenever the market moves away from its highs. In our opinion, this quote translates to "buy the dip" and "the market won't go up forever." The S&P 500 witnessed an April drawdown of 5.46% bringing the index to an intra-quarter low of 4,967.23 on April 19th. This drawdown was quite mild when compared to the average intra-year drawdown of 14.2%. This sub-5000 print was all but forgotten when the index achieved its first record high of the second quarter on May 15th. In fact, the S&P 500 saw eight new record high closes during the second quarter before finishing the quarter at 5,460.48.

While the US stock market hit eight new highs in the last three months, the daily movements were relatively small, and the final performance for the four main indices was relatively muted. US equities (Q: +2.94%) finished in first place followed by commodities (Q: +0.55%), US fixed income (Q: +0.07%) and international equities (Q: -0.01%). This letter will provide an analysis of the major geopolitical, financial, and thematic events that shaped the second quarter and our predictions for the back half of the year.

NVDA & Mega Cap Stock Updates

Forget the Magnificent 7, NVDA has quickly become the most important stock in the world. While it was the largest stock in the world by market cap for only one day, it is without question the stock that is currently driving the daily performance of the entire stock market. Both before and after the 10 for 1 stock split, NVDA has remained extremely volatile. Its stock price has closed up or down more than 2% during more than half of the trading days in the second quarter. The stock began the quarter at a split adjusted price of 90.35, reached a high of 135.58, before closing the quarter at 123.54. Even with tremendous volatility, NVDA gained 36.73% in the second quarter and 149.75% thus far in 2024. In fact, not only is NVDA responsible for one third of all S&P 500 gains this year, since the release of ChatGPT in late November 2022, NVDA has gained an eyewatering 745%.

Looking more broadly, out of the original Magnificent 7 members, only NVDA, GOOGL, AMZN, & MSFT have outperformed the S&P 500 in both the second quarter and first half of 2024. Currently, these four companies comprise just shy of 25% of the S&P 500. The total market capitalization of these four companies is $11.6 trillion, which is equivalent to the current annual GDP of Germany, Japan, and France combined. The S&P 500 has never been this top-heavy in American history. As we look toward the future, much like every cycle in history, the extreme concentration seen in the S&P 500 will ultimately wane and smaller companies will have their chance to outperform.

Performance of US Small & Midcap Companies

While the average stock price of large- and mega-cap companies have soared in 2024, US Small and Mid-cap companies have not fared nearly as well. The Russell 2000 is the most popular index which tracks smaller companies. Currently, the companies it tracks range in size from a market cap of zero to $46 billion. In the first quarter, we at GA Pincus Funds along with most financial pundits believed the bull market was broadening as the Russell 2000 was up 5.55%. As we mentioned in the conclusion of our last newsletter, Tom Lee, one of the most bullish analysts on Wall Street, predicted that the small-cap Russell 2000 Index will finish 2024 up 50%. Based on the lackluster performance of the index in the second quarter (-3.62%), the index would need to increase by 55.63% over the next six months for Tom Lee's prediction to be accurate.

The negative performance of the Russell 2000 has detracted from an otherwise muted quarter. To have a broadly diversified portfolio it is important to include and to remain invested in small- and mid-cap companies. While the performance of the Russell 2000 has lagged recently, when looking at the last 98 years, these smaller companies have on average outperformed the S&P 500 by 1-2% per year.

Federal Reserve & Inflation

So far this year we have been correct in our predictions that the Federal Reserve would not lower interest rates. For that reason, the US fixed income market is essentially flat on the year (-0.71%). While Powell continues to predict rate cuts due to cooling inflation, we continue to disagree. We predict the governors at the Fed will not only wait until we see 2.0% inflation, but they will wait at least one additional meeting to insure the first print was not a fluke. Even when inflation is sustained at 2.0%, we believe it is unlikely rates will be lowered if the US stock market is still in a raging bull market.

	US Core Inflation Rate	US Inflation Rate	US Core PCE Rate	US PCE Rate
September 2022	6.6%	8.2%	5.5%	6.6%
December 2022	5.7%	6.5%	4.9%	5.4%
November 2023	4.0%	3.1%	3.2%	2.6%
February 2024	3.8%	3.2%	2.8%	2.5%
May 2024	3.4%	3.3%	2.6%	2.6%

*www.tradingeconomics.com

"Core" inflation and PCE strip out food and energy, the most volatile sectors. Both metrics are performing phenomenally well in their straight-line retreat from their mid-2022 peaks. This clearly demonstrates that Jerome Powell and the Federal Reserve have thus far been successful in their quest to lower inflation. Based on the above chart, maintaining higher rates will likely allow the Fed to bring the US Core PCE Rate down to 2% by the end of 2024. Thus, barring a black swan event, we do not foresee any rate cuts in 2024.

Real Estate

When the Federal Reserve began raising interest rates in 2022, almost everyone worldwide believed that US residential real estate prices would fall. So far, we have all been wrong. Despite mortgage rates having risen from 2.25% to 7.5%, existing home prices are at an all-time high. In February 2022, the

Federal Funds rate was 0-0.25% and the median price of an existing home was $357,000. Today, the Federal Funds rate is 5.25-5.5%, and the median price of an existing home is $419,000. For reference, today's median price is almost twice as high as the peak in 2008 before the Global Financial Crisis. The question is, "why?" and the answer is "limited supply coupled with no recession."

US commercial real estate is another market behaving in a nonsensical fashion when compared with prevailing expectations. As we all know, Covid taught the world that almost all jobs could be done remotely with the same effectiveness and profitability. This realization has decimated the US office space market. The national office space vacancy rate in mid-2019 was 9.6% with an average market rent of $33.13 per square foot. Fast forward five years and the vacancy rate has almost doubled to 17.8%. Even more distressing is that the average market rent has only increased to $37.72 during this period. This lags inflation by almost 10%. When you include the impact of approximately one third of all leases expiring by 2026 and persistently high interest rates, one must begin to wonder when this $3 trillion market will crack. The real estate ETFs that GA Pincus Funds hold for clients have an office REIT exposure of less than 5%. Thus, your total exposure as a percentage of your portfolio is significantly less than 1%.

Conclusion

Since its inception on March 4th, 1957, the average annual performance for the S&P 500 is 10.26%. Considering the 12.79% gain in the first half of the year, analysts have begun to raise the year-end projection for the index. In fact, on June 26th Goldman Sachs increased their year-end forecast for the third time this year. They even declared that there is a scenario of "Mega-cap Exceptionalism" that could drive the S&P 500 to 6,300. A year end value of 6,300 would be a 15% increase from today and a full year gain of almost 33%. Hopefully, this rally will stretch beyond Mega-Cap companies thus boosting the performance of your diversified portfolio.

APPENDIX

Diversification

As you know, GA Pincus Funds uses a proprietary algorithm embedded within custom software to deliver tax-adjusted returns that aim to out-perform your blended benchmark. We aim to use a broad set of asset classes so that each of your portfolios represents the global stock, bond, and commodity markets. Each year there will always be a best performing asset class and a worst performing asset class. Diversification ensures stability since your portfolios own a blend of the global market. Part of our investment strategy involves shifting portfolio weightings to minimize the exposure to the underperforming asset classes while maximizing exposure to the stronger asset classes. We will continue to monitor the changing ETF landscape to further diversify each of your portfolios when it is applicable.

Client Referral Network

One of the oldest and most successful methods to grow a business is through word of mouth. GA Pincus Funds has been fortunate and has grown substantially due to referrals made by you and your fellow clients. We would like to use our future quarterly newsletters to return the favor to our clients. We plan to dedicate a section of our newsletters to our client's businesses. Rather than list your name or company name, we will instead indicate the category of business and location where you operate. For example, Real Estate Professional in Chicago, or Employment Lawyer in Georgia, or Public Relations Professional in New York, etc. If you would like to participate in this program, please let us know. This referral program is **free marketing** for your business. **We will not accept payments for these referrals.**

Performance Calculations

The performance of your accounts is calculated daily, taking into consideration daily deposits and withdrawals, and those daily returns are combined to form your quarterly, YTD, and since inception returns. When we round off this enhanced precision it may shift your performance by 0.01-0.02% when compared to the calculation ((end date value – start date value)/start date value). Please note, the performance figures in your statement are accurate and are GIPS (Global Investment Performance Standards) compliant.

Exchange Traded Funds (ETFs) are required to distribute all excess cash, net income, and dividends received from their constituent companies to their shareholders annually. These distributions take the form of dividends. Many ETFs issue special dividends at the end of the year to ensure compliance with this rule. The amount of the dividend is removed from the ETF on x-date, and the shareholder receives the funds on the pay date. The x-date and the pay date can at times straddle New Year's Day. Please be aware, your full year returns may be slightly lower than expected due to this nuance.

It is impossible to predict whether and by how much the market will increase or decrease. Our algorithm rebalances your accounts according to changes in the relative weightings of the securities you hold. As one security becomes too heavily weighted the algorithm sells shares in that security. Conversely, as one security becomes too lightly weighted, the algorithm purchases shares of that security. Instead of rebalancing based on time (as most managers do), this algorithm rebalances based on a securities' relative weighting in the portfolio. This gives GA Pincus Funds a long-term advantage. No matter what the market does in the future or has done in the past, if your time horizon is long enough (>1 year), this algorithm has proven itself to be successful.

Please stay safe and healthy. I am always available to answer any questions you may have.

Best regards,

Gabriel

GA Pincus Funds
Gabriel Pincus, President
1574 Woodberry Court
Brentwood, TN 37027

www.gapincusfunds.com
m: 917-597-1450

e: gabriel@gapincusfunds.com